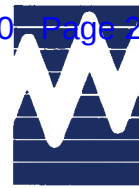


# **EXHIBIT I**



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Westridge Capital Management, Inc.

March 9, 2001

Ms Julie Forsythe  
Director, Pensions  
CBS Corporation  
11 Stanwix Street  
Pittsburgh, PA 15222-1384

Dear Julie:

Paul Greenwood and I enjoyed meeting you and appreciate the time you spent with us in order to learn more about the Westridge Capital/WG Trading enhanced index strategy. Enclosed for your review, is a background piece we prepared which summarizes the major elements of the strategy.

For the month of February, the account returned – 8.86 % while the S&P 500 returned -9.12 %, bringing the year-to-date return to –5.46 % versus the S&P 500 return of –5.89 %.

Should you have any questions regarding the enclosure or the performance, please be sure to call me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jim Carder', written over the printed name.

James L. Carder

222 East Carrillo Street  
Suite 300  
Santa Barbara, California 93101  
Telephone (805) 564-3500  
Fax (805) 564-2416

# **WESTRIDGE CAPITAL MANAGEMENT**

## **ENHANCED INDEX STRATEGY**

**DECEMBER 31, 2000**

### **WHAT IS ENHANCED INDEXING?**

Enhanced indexing is an approach to investing that seeks to add “value” to straight index investing, yet control risk using methods more commonly associated with traditional passive indexing. Excess returns are generated from one or more types of risk exposure, although these are tightly controlled to the underlying index.

### **WHAT IS THE HISTORY OF INDEX ENHANCEMENT?**

Enhanced indexing began in the early 1980’s with the advent of equity futures. These new instruments made it possible for the first time to buy or sell “the market” (i.e. S&P 500) efficiently and cheaply, and as a single unit, versus a transaction involving five hundred individual stocks. Commissions were a small fraction of those for a five hundred stock basket and bid/asked spreads were tighter. Therefore, traders and portfolio managers had a powerful new tool with which to alter equity exposure. As a result of this inexpensive ease of entry into and exit out of the market, the futures tended to move in advance of the cash index, thus creating opportunities to capitalize on mispricings.

At times it was literally possible to sell the stocks in an index fund portfolio and replace them with cheap futures contracts. This amounted to being able to purchase the market at a discount. Importantly, that discount was certain to amortize over the life of the futures contract since, by definition, convergence of the cash index and the futures was guaranteed by the design parameters of the contract. Also important was the fact that several large, well capitalized brokerage firms would take orders to trade between the stocks and the futures and guarantee the spread. If, in fact, the spread was not achieved by trading, the firm guaranteeing the spread would write a check to the customer for the difference. This arrangement was projected to be profitable for the executing broker since the spread was generally achieved and should the trade be executed at a more advantageous spread, the broker would receive a large percentage of the excess profit.

For several years in the 1980’s index funds had this trade available on a reasonably consistent basis and could add incremental return without adding incremental risk. The strategy of buying the market at a discount and either selling it at a premium or replacing cheap futures with the actual stocks at expiration took on the nomenclature of enhanced indexing; essentially, maintaining the risk level of the market while producing excess returns or positive alpha.

Over time conditions changed enough whereby index arbitrage as a value added strategy for index funds became unprofitable. First, many brokerage firms traded index arbitrage in proprietary accounts creating significant competition. A distinct advantage for the broker/dealer community is the absence of commissions and custodial fees making proprietary trading much more competitive versus customers orders. Secondly,

real-time systems were created which shortened the time of execution for the strategy from eight or nine minutes to something under one minute.

Greater ease of transacting and a much shorter time frame in which the basis between the cash and futures could change disadvantageously led to a dramatic tightening of the spreads. As a result, considering commissions and bank custodial changes, customers were no longer afforded the luxury of the essentially riskless index enhancement of index arbitrage.

Today, enhanced indexing is receiving more attention as a style, as active management has experienced several years of significant underperformance relative to passive benchmarks. Significantly, if enhanced indexing can deliver consistent excess returns while closely tracking the underlying index with few disappointments, it is difficult to imagine that investors will not prefer it to either active or passive investing. Several of the more common forms of enhanced indexing are discussed below.

## **WHAT ARE THE VARIOUS FORMS OF ENHANCED INDEX INVESTING?**

Enhanced indexing is generally divided into two broad strategy groups- stock based strategies and synthetic strategies. Almost all of the specific strategies employed within the two general groups have added additional risk over and above that assumed by early enhanced indexers utilizing index arbitrage. In other words, while they strive to add positive alpha the question becomes, what level of additional risk is assumed versus a passive index fund? The answer is clear that most enhanced indexing has moved out on the risk spectrum versus the original notion of replacing a cash index fund with S&P futures in virtually riskless fashion. To elaborate, a brief description of the most prevalent current practices follows.

### **Stock Based Strategies:**

*Stock based strategies involve some form of stock picking. Tilts* make a conscious decision to weight a broadly diversified, index-like portfolio differently from the index. Growth or value would be examples of tilt portfolios. Overperformance is projected to be achieved from the manager's superior ability to predict the style which the market will most favor.

**Quantitative techniques** often replace a manager's opinions for selecting stocks. Here, a number of factors are screened and weighted mathematically to construct portfolios. Typically, this style selects stocks from the universe of the S&P 500 and purports to be able to select the potential best performers and eliminate the poor performers. While other stock based strategies exist, these two are most commonly portrayed as index surrogates from a risk level with an expectation of overperformance. The point is that while the stock universe is the same as the S&P 500 and mathematical/statistical tools are used to construct portfolios which will mimic the index, the fact remains that these are not pure index portfolios and will generally experience tracking error. Excess performance is the goal, yet underperformance may be the reality. In addition, there are additional transaction costs and higher management fees associated with these strategies.

### **Synthetic Strategies**

*Synthetic strategies do not involve any stock selection for the index exposure.*

Rather, S&P 500 futures are owned and the remaining cash invested. In order to outperform the market, the cash must earn a rate in excess of the premium paid for the futures plus the dividends foregone. Obviously, the important aspect of these strategies is what is done with the *cash*. Several approaches are used.

**Traditional fixed-income management** seeks to generate excess returns over LIBOR (a good proxy for the implied interest rate or cost of the futures) by moving out on the yield curve when a positive slope exists, sacrificing liquidity, or accepting lower quality in the portfolio. All of these techniques are designed to capture a spread over LIBOR. Typically, a duration mismatch is created between the duration of the futures which are rolled forward every 90 days and duration of the portfolio. In other words, fixed-income risk is added to the inherent risk of the equity market. This approach tends to work in an environment of a fairly steep yield curve, wide quality spreads and stable or declining interest rates. During 1994, when short-term rates doubled throughout the year, fixed income enhancement strategies underperformed significantly. Again, a higher risk element is introduced relative to straight indexing or the index arbitrage process described earlier.

**Long/short strategies** tend to be based in the equity markets and depend on active security selection. They attempt to identify and own baskets of undervalued stocks and sell short baskets of overvalued stocks in equal dollar amounts. This does not actually constitute a true arbitrage position, even though it is often portrayed as such. Quantitative and qualitative techniques may be used to construct the baskets, but the longs and shorts are not identical and may at time diverge leading to underperformance. Whereas market movement generally accounts for upwards of 80% of performance, leaving less than 20% attributable to the manager, long-short strategies eliminate the market element and rely 100% on the manager's stock selection ability.

*The conclusion reached regarding synthetic strategies is for the most part long futures/long cash portfolios introduce additional risks not present in index funds.* Either fixed-income risks are assumed or stock picking risks are assumed. In either case, a greater variability of returns relative to the index is the outcome and the risk of underperforming the index is almost certain to be realized in some periods and perhaps over longer periods or on a consistent basis. Both of these approaches are a form of active, not passive, management requiring security selection and weighting decisions.

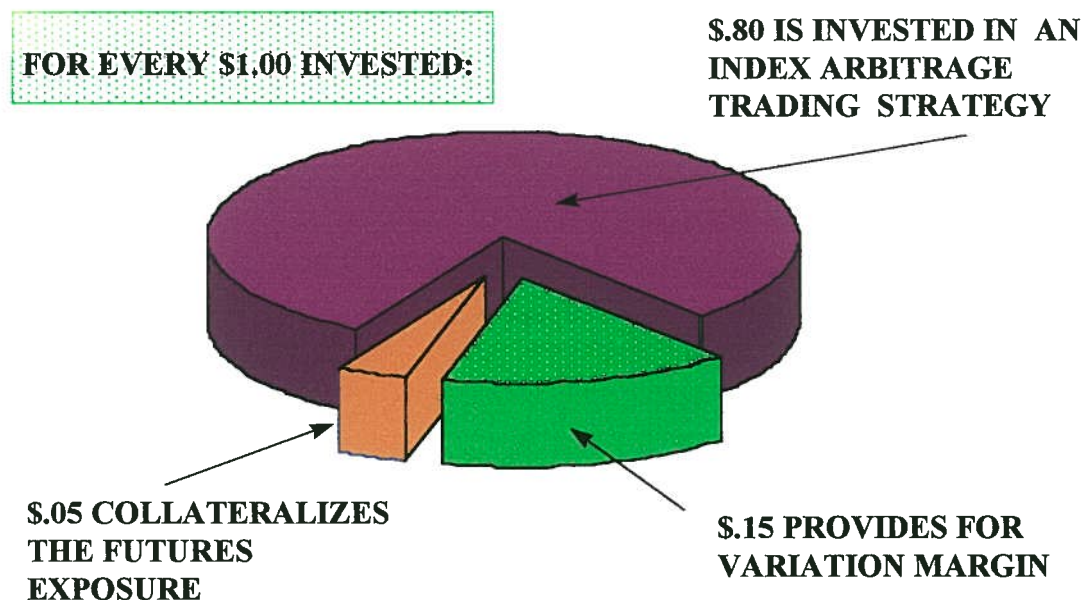
### **HOW DOES WESTRIDGE MANAGE ITS ENHANCED INDEX STRATEGY?**

The Westridge approach incorporates elements of the typical synthetic strategy, but couples it with a cash management process that is most similar to the origins of index enhancement. **It involves a constant long position in index futures for the index exposure and the investment of cash in an index arbitrage strategy.** In general, the arbitrage is accomplished through the purchase of all the stocks in an index in their proper weightings and the simultaneous sale of the futures when the premium plus the expected dividends received from holding the stocks is greater than short term rates. (When conditions dictate, the transaction may be reversed.) *Accordingly, the market*

*exposure of this arbitrage is zero.* This transaction, upon execution, locks in a profit to the expiration of the futures. With more volatile markets, the basis between the stocks and futures may change providing an opportunity to reverse the trade prior to expiration of the futures and realize additional profits.

This strategy is executed at the broker-dealer level where the trading and carrying costs offer a distinct advantage. *So while index arbitrage is no longer viable for customers it still exists at the dealer level. Initially, firm capital is deployed when the arbitrage locks in returns in excess of short-term rates (LIBOR). Thereafter, should the arbitrage opportunities persist, financing is employed to earn additional returns.*

## HOW DOES IT WORK?



Every dollar invested in this strategy is invested in the following fashion:

- \$0.05** Buys \$1.00 worth of futures exposure of the underlying index
- \$0.15** Establishes a short term cash position to cover daily margin variation of the futures position.
- \$0.80** Is invested in the index arbitrage strategy. *This is where the value is added—a true market neutral position.* Frequently, financing is utilized in this strategy to improve the overall return, but only when the total return of the arbitrage opportunity exceeds the cost of borrowing.

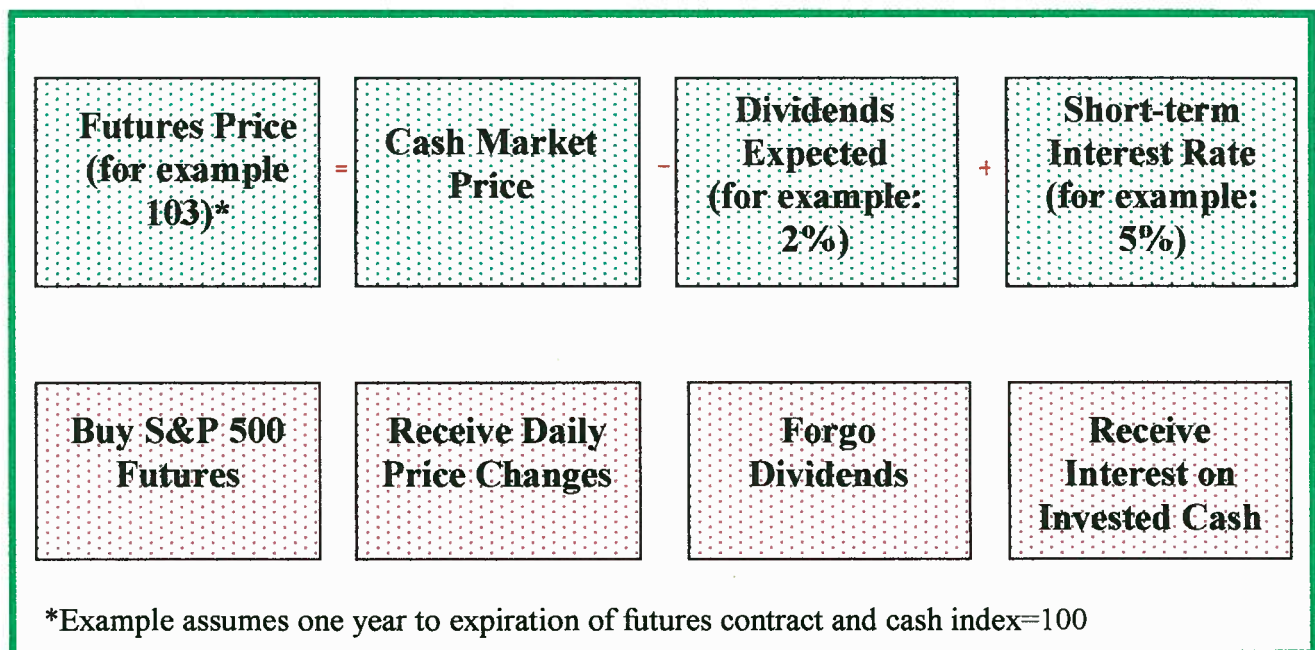


## WHAT IS THE ROLE OF FUTURES IN THIS STRATEGY?

Futures are used for two different purposes in the Westridge index enhancement process. **Futures are purchased to gain portfolio exposure to a given index (S&P 500, S&P MidCap 400; Russell 2000, etc.).** This ensures that, at a minimum, the portfolio will track the desired index. **Futures are also used in the cash enhancement arbitrage trading process** which generates the incremental return necessary for outperformance. Each of those roles is described below:

### Use of futures to gain index exposure

The futures relationship to the underlying cash index is dictated by short-term rates, the dividend yield of the stocks and the differences between the two. At fair value, the price of the futures contract will be equal to the current index value, plus a premium equal to the difference between short-term rates and the dividend yield. An investor would be indifferent between owning the futures plus cash invested at the short-term rate and owning the stocks themselves. This concept is illustrated below:

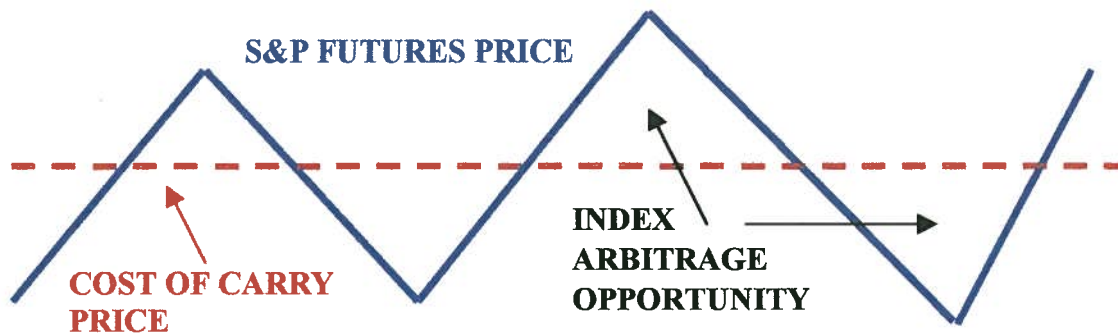


In this example, an investor would lose the three point premium paid for the futures due to the convergence to the cash index. However, he would be compensated for that loss by the fact that the cash available (since the stocks were not purchased) for investment will earn 5% and the dividends foregone are 2% or a net 3%, equal to the premium loss. This condition is referred to as fair value for the futures contract. When this condition of fair value exists, the outcome of owning the futures plus cash is identical to owning the actual stocks.

### Use of futures in cash enhancement arbitrage trading

The purchase of the futures exposure as illustrated above provides 100% of the index exposure. *The cash available is allocated to liquidity margin maintenance and an index arbitrage strategy that seeks incremental return over and above short term rates utilizing low risk trading at the dealer level between the cash and futures markets of various indices.* Generally, S&P or other futures are *sold* and all the stocks in the index are purchased in an arbitrage transaction that “locks in” a premium to short term interest rate that remains in effect till the expiration of the futures.

### WHY DOES THIS WORK?



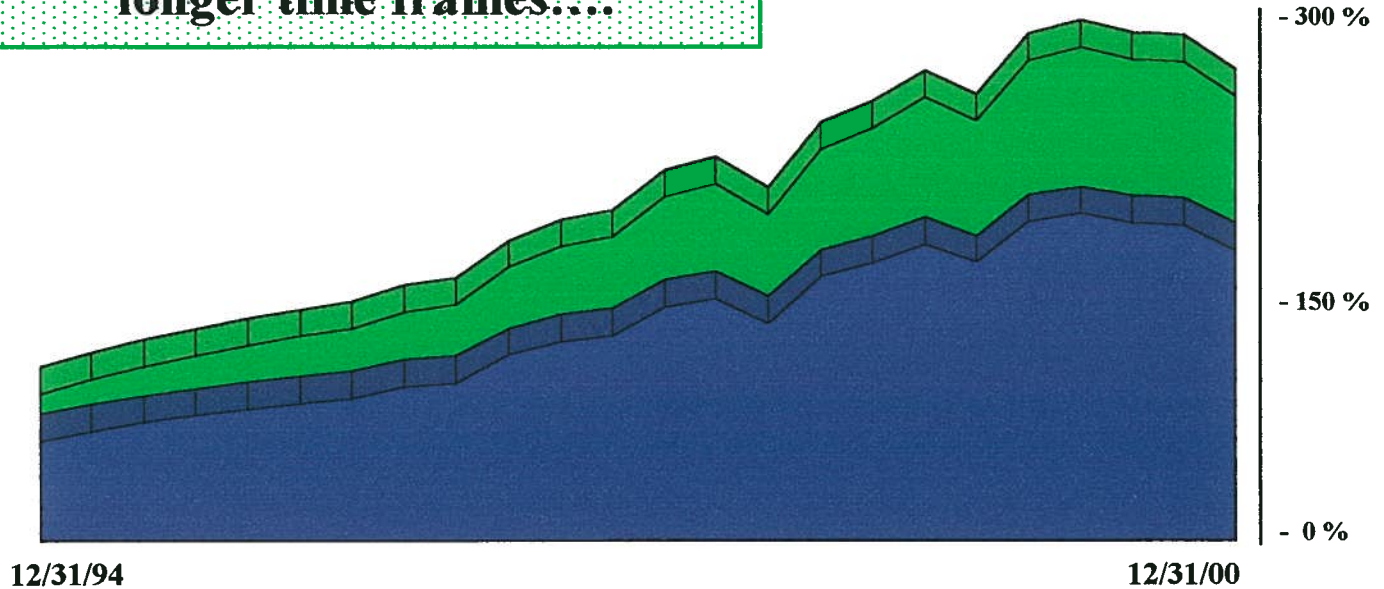
In reality, the futures rarely trade at fair value but trade instead in a band around fair value determined by the level of mispricing which induces arbitrageurs to transact. This has all the elements of a riskless transaction: simultaneous buying and selling of like securities (cash index versus futures) for a spread.

### HOW MUCH INCREMENTAL RETURN DOES THE ENTIRE PROCESS GENERATE?

As illustrated below, this approach has outperformed the S&P 500 *by over 400 basis points compounded annually since inception.* Similar value added is available utilizing other indices. It not only generates incremental return, but does so in a very consistent manner. *This approach has outperformed the index every single one year period since inception.*

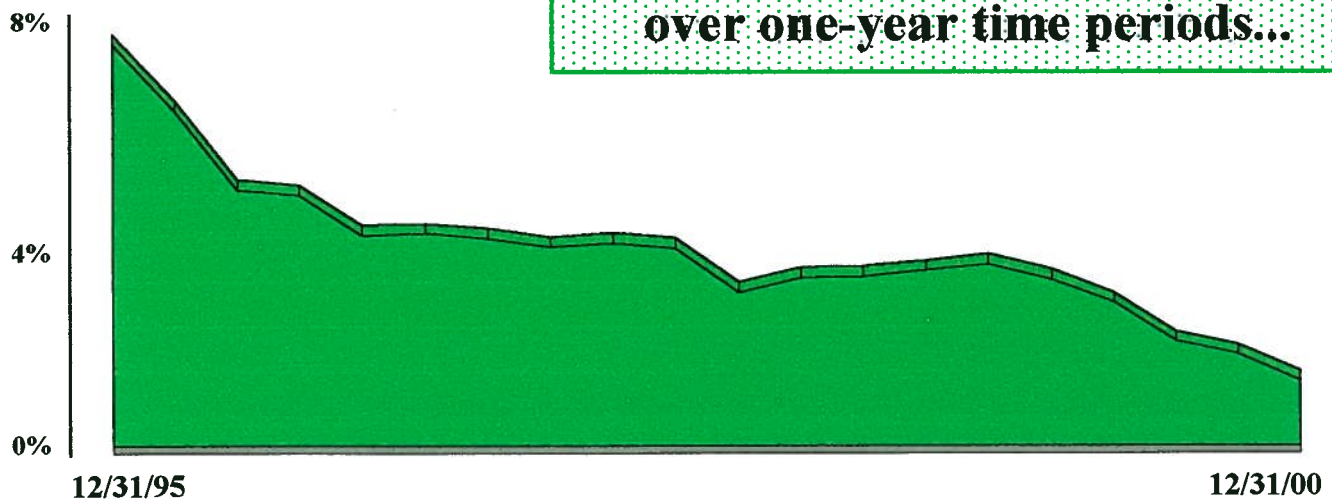


**Significant outperformance over longer time frames....**



INVESTMENT RESULTS	ANNUALIZED	CUMULATIVE
<b>WESTRIDGE</b>	<b>25.32%</b>	<b>287.35%</b>
<b>S&amp;P 500 INDEX</b>	<b>21.34%</b>	<b>219.15%</b>
<b>DIFFERENCE</b>	<b>3.98%</b>	<b>68.20%</b>

**...And consistent outperformance over one-year time periods...**



**FOUR QUARTER ROLLING OUTPERFORMANCE VERSUS S&P 500 INDEX**

## ...With Outstanding Risk and Return Characteristics

### Portfolio Statistics\*

5 YEARS ENDING 12/31/00

#### WESTRIDGE S&P 500 INDEX DIFFERENCE

ANNUALIZED RETURN	21.48%	18.33%	3.15%
STANDARD DEVIATION	15.89%	15.94%	-0.06%
BETA	1.00	1.00	0.00
R-SQUARED	1.00	1.00	0.00
TRACKING ERROR	0.36%	0.00	0.36%
ALPHA	3.20%	0.00%	3.20%
SHARPE RATIO	1.03	0.83	0.20
INFORMATION RATIO	8.83	0.00	8.83

\*Note: Please refer to the Performance Disclosure section of this document for notes on performance.)

#### WHAT ARE THE SOURCES OF RETURN?

As with any index-related investment, the single most prevalent risk is the risk or volatility of the index itself. *The key to the enhancement process, therefore, is how much incremental risk is assumed and whether the investor is compensated for taking it.* In seeking enhancement over and above an index, Westridge assumes the index volatility and adds return through arbitrage trading activities in order to enhance return above the base index. *It should be noted that Westridge is the only manager offering index arbitrage enhanced index products to customers.*

## **Return from Arbitrage**

*The index arbitrage, or the simultaneous buying and selling of index futures and the underlying stocks is the principal source of the enhancement.* Arbitrage trades are typically executed in “baskets” of approximately \$2.5MM, so there are many trades in effect at any one point in time. Frequently, trades are reversed prior to expiration to return even more than originally contracted for.

The driver of the process is the basis of the futures relative to the index. Arbitrage trading relies on market volatility, or choppiness in the basis between the index and the futures in order to accommodate trading. As volatility increases, it presents the opportunity to enhance returns from multiple arbitrage trades. Market direction is of no consequence, only volatility.

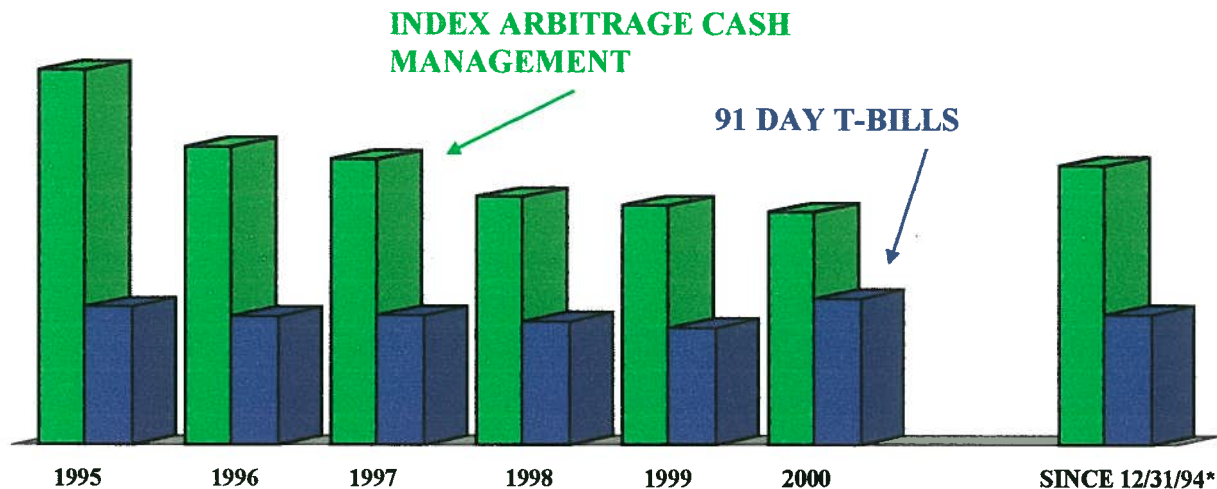
The risk with arbitrage trading, therefore, takes on a different twist than normally assumed: *risk for index arbitrage trades is defined as the inability to execute transactions due to market conditions.* This risk became more prevalent after 1990 when restrictive trading “circuit breakers” were introduced to limit program trading. Since index arbitrage trading is a form of program trading, it falls under these restrictions. Thus, on days when there are vast swings in index values, few arbitrage transactions can be executed. Recently, an agreement was reached by the Board of Governors of the exchange to expand these trading collars, which should expand the arbitrage opportunities.

There are a number of large brokerage firms and international banks that execute index arbitrage trades for their own account. These firms do not offer outside investors access to this strategy at the broker dealer level, as they are not structured for this business. They use index arbitrage to compound their proprietary capital.

## **HOW HAS THE INDEX ARBITRAGE CASH ENHANCEMENT PERFORMED?**

The index arbitrage strategy has produced an annualized return over the last 7 years more than double that of the T-Bill rate. **This is the source of the enhancement of the index.** It should also be noted that this enhancement is quite consistent, with positive performance every year since inception. Furthermore, because the strategy tracks *short-term, cash equivalent yields*, when interest rates rise, so do the returns from this strategy.

# INDEX ARBITRAGE CASH MANAGEMENT



SOURCE: WG TRADING COMPANY LP

YEAR	1995	1996	1997	1998	1999	2000	INCEP*
INDEX ARB CASH	14.85%	11.80%	11.31%	9.83%	9.46%	9.23%	11.06%
91 DAY T-BILLS	5.44%	5.07%	5.12%	4.88%	4.63%	5.79%	5.15%
ENHANCEMENT	9.41%	6.73%	6.19%	4.95%	4.83%	3.44%	5.91%

\*From December 31, 1994 through December 31, 2000

## Return from Financing

The SEC allows broker dealers to finance as much as 20 times their capital for index arbitrage trades, because they view this as among the most liquid of transactions with no credit, duration, or market risk. Because WG Trading is a broker dealer, it can utilize leverage to boost returns. *Financing is not employed, however, unless a profitable arbitrage opportunity exists.* Put another way, only when the traders have identified and executed an arbitrage trade is money borrowed to pay for the transaction. If no profitable trade is available, no funds are borrowed.



<b>SPREAD BETWEEN STOCKS AND FUTURES</b>	<b>4.5%</b>
<b>DIVIDEND YIELD</b>	<b>1.5%</b>
<b>GROSS INCOME</b>	<b>6.0%</b>
<b>COST TO CARRY STOCKS</b>	<b>5.5%</b>
<b>NET PROFIT</b>	<b>0.5%</b>

As shown in the example above, even including financing, this trade is profitable. Utilizing the low-risk, high return strategy of index arbitrage at the dealer level adds a unique dimension to the cash management process. Ultimately, this results in higher returns without a concurrent increase in risk and in that regard distinguishes itself from other enhancement strategies.

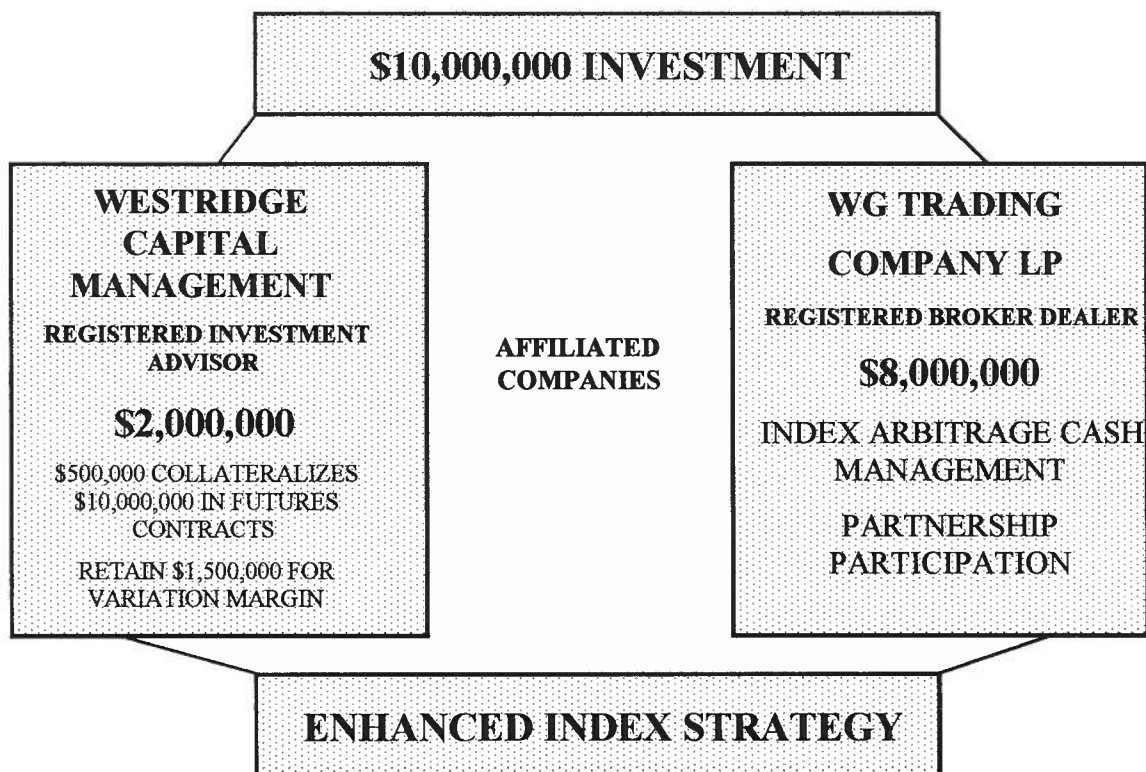
#### **WHY IS REAL TIME TRADING IMPORTANT?**

The ability to identify an arbitrage opportunity *in real time* is essential to the index arbitrage process. When executing an index arbitrage transaction, simultaneous trades must be made for the futures contracts and the underlying stocks in the index. WG Trading has created a trading platform which is dedicated to this strategy. The principals of WG Trading were the first to employ real time trading on the NYSE and have developed and updated all the systems used by WG Trading which are devoted exclusively to this purpose.

Each trading day, spread relationships between the cash and futures are monitored in “real time” by the WG Trading proprietary trading systems. When profitable differences occur, orders are transmitted to the floor of the NYSE via computer for the purchase of all stocks in the index; the futures are sold simultaneously. **The entire process takes less than one minute.** No other firm in the index enhancement business offers clients the ability to enhance an index through index arbitrage transactions at the dealer level.

#### **WHAT IS THE RELATIONSHIP BETWEEN WESTRIDGE AND WG TRADING COMPANY LP?**

Westridge Capital Management and WG Trading Company LP are separate companies but affiliated through common ownership. Each company performs a specific role in the management of funds for clients. Westridge Capital Management is a registered Investment Advisor and is responsible for managing the futures exposure and variation margin for all enhanced index accounts. WG Trading Company LP is a registered Broker Dealer which trades for its own account in index arbitrage transactions. It is responsible for the design, maintenance, and operation of the proprietary trading systems used for index arbitrage trading. All enhanced index products are the combined efforts of both companies.



#### WHAT ARE THE TRANSACTION COSTS?

Transaction costs are virtually nonexistent because WG Trading is a broker dealer and is executing this transaction as a principal, not for a customer. Market impact is minimized because orders are executed at market. *In reality the biggest transaction cost is the cost of financing and that will not be employed unless a profitable arbitrage opportunity has been executed.*



## IS THERE ANY REGULATORY OVERSIGHT?

Typically, most investment managers have oversight only from the SEC and in some cases state Department of Corporations commissions. As a registered investment advisor, Westridge Capital Management falls under the Investment Advisors Act regulatory powers of the SEC. Because WG Trading is a broker dealer, it has more extensive regulatory oversight and its regulation is among the most stringent in the investment management industry. It is regulated by the SEC, NASD and NYSE, plus the American, Philadelphia and Pacific Stock Exchanges as well as the Commodities Futures Trading Commission and the National Futures Association.

## WHAT ARE THE OTHER ENHANCED INDEX PRODUCTS OFFERED BY WESTRIDGE?

<b>ENHANCED INDEX PRODUCTS</b>			
<b><u>BENCHMARK</u></b>	<b><u>INCEPTION</u></b>	<b><u>WESTRIDGE</u></b>	
		<b><u>RETURN*</u></b>	<b><u>ENHANCEMENT *</u></b>
<b>S&amp;P 500</b>	<b>1/1/95</b>	<b>25.32%</b>	<b>+3.98%</b>
<b>S&amp;P 400</b>	<b>1/1/95</b>	<b>26.42%</b>	<b>+4.31%</b>
<b>RUSSELL 2000</b>	<b>1/1/95</b>	<b>17.51%</b>	<b>+4.36%</b>
<b>MSCI WORLD</b>	<b>1/1/95</b>	<b>21.02%</b>	<b>+4.79%</b>

\*ANNUALIZED RETURN AND ENHANCEMENT SINCE INCEPTION THROUGH 12/31/00

## PERFORMANCE DISCLOSURES

From 1995 through the date specified below, enhanced index performance does not represent a single account or composite of accounts. It assumes futures priced at LIBOR fair value for the Westridge Capital Management portion; WG Trading Company LP ("WG Trading") performance represents the actual return of the capital account. The enhanced index results represent full participation in the index via the futures market with 20% of the funds managed by Westridge Capital Management as a liquidity pool and 80% managed by WG Trading in an index arbitrage cash enhancement strategy. Actual account composites for each product began according to the schedule below. Model results such as those presented for the period from January 1995 to the initiation of the composite are subject to certain inherent limitations. In particular, since model returns do

not represent actual trading, they may not reflect the impact that market factors might have had on the decision-making process.

<u>Product</u>	<u>Initiation of Composite</u>
Enhanced S&P 500	4/1/96
Enhanced S&P 400	4/1/96
Enhanced Russell 2000	4/1/97
Enhanced MSCI World	4/1/98

Performance results for the period from April 1996 to date include only the actual performance of Westridge clients that initially invested 80% in WG Trading Company LP and 20% through Westridge (without regard to the fact that subsequent market movements would have altered these percentages)(the “80/20” strategy) and exclude the performance of any clients that initially invested in different percentages. As of December 31, 1999 approximately 50% of Westridge’s clients have implemented the 80/20 strategy and their performance returns are included in the results presented, Under the 80/20 strategy, 5% of the funds are in a long futures position, 15% of the funds are managed by Westridge as a short term short term liquidity pool, and 80% are invested in WG Trading through an index arbitrage cash enhancement strategy. (The notional amount of funds is invested in futures exposure; the underlying cash is utilized for variation margin maintenance and enhanced cash management index arbitrage trading. This means, for example, that a \$10,000,000 S&P Enhanced Index account may have only \$500,000 collateralizing the futures, but that amount provides \$10,000,000 of index exposure.) The WG Trading portion of the performance is audited as a capital account. All investment results are subject to client verification and reconciliation for the purpose of performance fee calculations.

Note: Prior to 12/31/95, WG Trading utilized certain other arbitrage strategies in addition to index arbitrage. The assets in these strategies amounted to less than 10% of all assets invested in WG Trading. Accordingly, the performance for the year 1995 reflects the impact of these other arbitrage activities.

The performance results of the combined Westridge/WG Trading 80/20 strategy and the include the reinvestment of dividends and other earnings (Total Return).

All performance is reported gross of fees but net of transaction costs.

All portfolio risk statistics are calculated by Westridge and are based on monthly data.

Past performance is no guarantee of future returns.

## **FEES AND IMPACT ON PERFORMANCE**

Westridge Capital Management charges an annual performance based fee of 25 basis points (25/100 of 1%) as a flat fee and 30% of all gains over the benchmark performance. Investment advisory fees charged by Westridge are described in Part II of its Form ADV. On an annual basis, these fees would have reduced gross performance shown in this presentation to the following: **1995:** 43.51%; **1996:** 26.11%; **1997:** 35.79%; **1998:** 30.59%; **1999:** 23.03%; **2000:** -8.48%.

**Pursuant to an exemption from the Commodity Futures Trading Commission in connection with pools whose participants are limited to qualified eligible participants, an offering memorandum for this pool is not required to be, and has not been, filed with the commission. The Commodity Futures Trading Commission does not pass upon the merits of participating in a pool or upon the adequacy or accuracy of any offering memorandum. Consequently, the Commodity Futures Trading Commission has not reviewed or approved this offering or any offering memorandum for this pool.**